Manitoba

COMMUNITIES ECONOMIC DEVELOPMENT FUND

ANNUAL REPORT

1988 - 89

91-01479/

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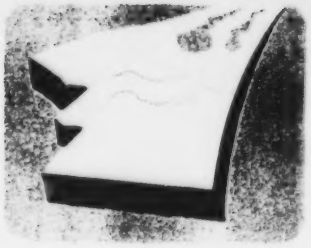
communities economic development fund



Honourable Jim Downey,
Minister Responsible for
Communities Economic Development Fund,
Room 333, Legislative Building,
Winnipeg, Manitoba
R3C 0V8

Dear Mr. Downey:

In accordance with the provisions of the Communities Economic Development Fund Act, I enclose the Report for the fiscal year ended March 31st, 1989, signed and certified in the prescribed manner.

Respectfully submitted,

William Bennett

William Bennett,
Acting Chairperson.

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DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Mr. William Bennett	Matheson Island
Mr. Elbert Chartrand	Swan River
Mr. George Dram	Wabowden
Mr. Leonard McKay	Norway House
Ms. Betty Thorsteinson	Westbourne
Mr. Peter Wintemute	Winnipeg

OFFICERS

Mr. Ted Chiswell	General Manager
Mr. Alec Musgrove	Corporate Secretary

REPORT OF THE GENERAL MANAGER

During the year under review, the Fund experienced, in addition to the regular annual audit, a special audit conducted by the Provincial Auditor. The special audit resulted in recommendations for changes and strengthening of several aspects of loan evaluation, monitoring, and other general procedures. Many of the recommendations are complete and the change to other procedures continues. During this period, the General Manager and Secretary left the Fund. The combined effect of these events was certainly a disruptive influence on operations. These events contributed to the lesser number of loans approved.

The fewer loans approved skew the graphs depicted in Figures 1 and 2. A large segment of the Fund's activities is devoted to monitoring current loans. The cost of monitoring continues despite the lower loan approval level. Monitoring helps to maintain the jobs created by the loan. These costs are reflected in Figures 1 and 2.

I am pleased to report loan demand since the year-end has now increased to normal levels. Results of the research and study into the need of the Fund confirm a demand for such an agency. However, we must strive to meet our goal of delivering service in a more efficient manner.

I would like to comment here on the increase in administrative expenses to clarify the one time nature of some of the costs. Increased consultants' fees are the result of an organizational review and research into the market for the Fund's services. The investigation expense, and a portion of salaries, resulted from the special audit by way of additional audit fees and negotiated retirement of employees. Legal fee increases reflect the defence of a court case.

The above unexpected expenses plus additional allowances for loss, prevented us from reaching our financial goals.

Figure 2 shows the relationship between loan balances, administrative costs and loss allowances.

Figure 3 shows the comparison of applications approved and number of jobs created.

Now that the revised organizational and operating procedures are in place, the Fund is poised to pursue its mission to help small entrepreneurs, in remote and isolated areas of the Province. Closer loan evaluation and monitoring, coupled with overall improved budget controls, will allow the new Board, management and staff to better serve our clientele.

The Fund is continually seeking ways to reduce administrative costs and, therefore, lower annual subsidies required.

The Board continues to attend to policies that will improve operations. The Board and its individual members have significantly assisted me during this time of transition. For those special efforts, I offer my special thanks.

I would also like to express my thanks to the staff for their dedication and efforts to carry out their duties in a worthy manner during difficult times.

W.E. Chiswell, C.A.,
General Manager.

FIGURE 1

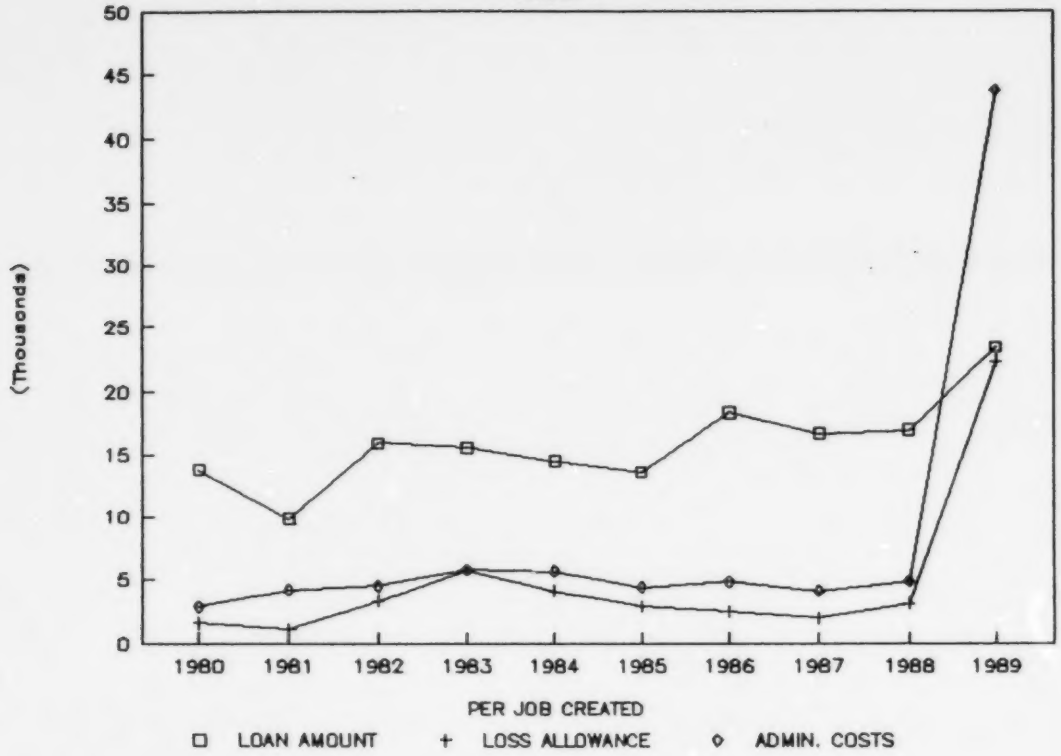

FIGURE 2

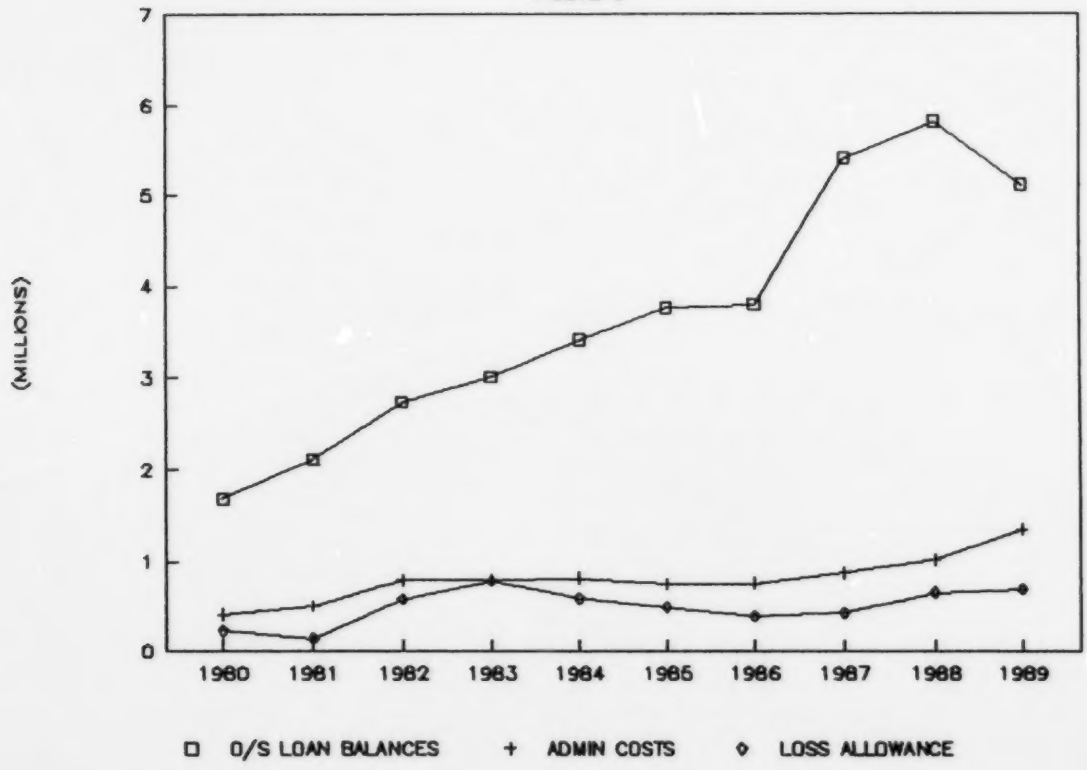

Figure 3

FISCAL YEAR	APPLICATIONS APPROVED	AMOUNT	JOBS CREATED AND/OR RETAINED
1972	19	389,500	56
1973	82	1,349,750	125
1974	43	983,983	100
1975	16	731,910	73
1976	18	374,470	100
1977	38	704,658	108
1978	20	510,399	103
1979	20	556,459	92
1980	37	1,982,791	144
1981	34	1,180,740	120
1982	46	2,800,140	176
1983	31	2,138,275	138
1984	49	2,080,595	144
1985	63	2,326,548	172
1986	43	2,909,735	159
1987	66	3,573,294	215
1988	70	3,550,050	210
1989	22	725,243	31
	717	$ 28,868,540	2,266

COMMUNITIES ECONOMIC DEVELOPMENT FUND

REPORT OF ASSISTANCE GRANTED OR TO BE GRANTED

FOR THE YEAR ENDED MARCH 31, 1989

Loan Recipient Area Benefitted - Nature of Operations	Interest Rate	Term	Amount
Bruce, Howard Poplar River - Skidder	11.625%	2 months	$ 5,380
Fort Island Enterprises Inc. Norway House - Laundromat	10.375%	5 years	120,581
Glover, Sharon McCreary - Trucking	10.75%	5 years	102,820
Grey, Zacheus The Pas - Skidder	10.25%	2 years	16,500
Groshok, Arlene Dauphin - Office Services	10.75%	1 year	3,400
Harper, Rhoda Garden Hill - Restaurant	10.625%	30 months	7,800
Head - Edward and/or Hazel Moose Lake - Taxi	11%	4 years	37,300
Ilford Community Store Limited Ilford - General Store	10.375%	3 years	15,660
Ladouceur, Larry and/or Schlachetka, Fred Cormorant - Foresting	10.625%	1 year	24,000
Malecki, Jacek The Pas - Go-Carts	10.50%	3 years	15,000
North, Gilbert Oxford House - Contracting	10.375%	6 months	6,000
North, Gilbert Oxford House - Contracting	10.625%	3 years	25,000
Norway House Fishermen's Co-Op Ltd. Norway House - Fishing	10.50%	6 months	25,000

REPORT OF ASSISTANCE GRANTED OR TO BE GRANTED

FOR THE YEAR ENDED MARCH 31, 1989

Loan Recipient Area Benefitted - Nature of Operations	Interest Rate	Term	Amount
Olson, Ronald The Pas - Fast Food Service	10.625%	65 months	14,390
Peaslee, Leanne and/or Zelenesky, Linda Gillam - Flower & Gift Shop	10.50%	3 years	15,000
Plunkett Industries Ltd. Pinawa - Construction	10.375%	3 years	25,000
Richards, William and/or Joyce The Pas - Confectionery Store	10.75%	5 years	34,828
Ryszitynyk, Ann The Pas - Handicraft Store	10.625%	4 years	12,000
Simard, Larry Alexander Manigotagan - Sawmill	10.375%	1 year	7,320
2152703 Manitoba Ltd. (Cyril I. Perry) Sherridon - Hotel	10.625%	8 years	131,074
Wabman Trucking Service Ltd. Wabowden - Hauling	10.375%	6 months	56,190
Willson, Arlene Lilja The Pas - Florist Shop	10.75%	6 years	25,000
			$ 725,243

Manitoba

COMMUNITIES ECONOMIC DEVELOPMENT FUND

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the balance sheet of the Communities Economic Development Fund at March 31, 1989 and the statements of operations and changes in cash position and the schedule of administrative expenses for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Communities Economic Development Fund as at March 31, 1989 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied, except for the changes in the methods of accounting for pension expense and obligations and for the allowance for doubtful accounts as described in note 3, on a basis consistent with that of the preceding year.

F. H. Jackson, CA,
Provincial Auditor.

June 8, 1989,
Winnipeg, Manitoba.

COMMUNITIES ECONOMIC DEVELOPMENT FUND

Balance Sheet
as at March 31, 1989
(with 1988 figures for comparison)

ASSETS

	1989	1988
Cash and trust deposits	$ 1,625,550	$ 665,806
Due from Province of Manitoba (note 7)	868,822	515,439
Accounts receivable	4,028	12,991
Loans and interest receivable, less allowance for doubtful accounts $1,642,700 (1988 - $1,138,600) (notes 2 a and 3 a)	5,113,833	5,806,146
Mortgage receivable	114,223	115,290
Office furniture and equipment at cost, less accumulated depreciation $53,916 (1988 - $43,284) (note 2 d)	60,754	69,952
	$ 7,787,210	$ 7,185,624

LIABILITIES

Accounts payable and accrued liabilities	$ 32,011	$ 43,019
Due to Manitoba Development Corporation (notes 1 and 2 b)	84,976	125,382
Accrued pension liability (note 2 c and 3 b)	153,000	-
Advances by the Province of Manitoba (note 4)	7,517,223	7,017,223
	$7,787,210	$7,185,624

SIGNED ON BEHALF OF THE BOARD

Director

Director

The accompanying notes are an integral part of these financial statements.

COMMUNITIES ECONOMIC DEVELOPMENT FUND

Statement of Operations
for the year ended March 31, 1989
(with 1988 figures for comparison)

	1989	1988
Revenue:		
Loan interest	$ 629,601	$ 595,309
Miscellaneous	47,664	54,546
	677,265	649,855
Expenditure:		
Administrative, Schedule 1	1,355,597	1,016,590
Provision for doubtful accounts on loans receivable (notes 2 a and 3 a)	690,491	655,830
	2,046,088	1,672,420
Excess of expenditure over revenue	1,368,823	1,022,565
Less subsidy from the Province of Manitoba (note 1)	1,368,823	1,022,565
	$ -	$ -

The accompanying notes are an integral part of these financial statements.

COMMUNITIES ECONOMIC DEVELOPMENT FUND

Statement of Changes in Cash Position
for the year ended March 31, 1989

Cash provided by (used for)	1989	1988
Operating activities		
Excess of expenditure over revenue - Statement 2	($1,368,823)	($1,022,565)
Items not affecting cash flow:		
Depreciation	10,632	10,135
Provision for doubtful accounts on loans receivable	690,491	655,830
Net cash used in operations	(667,700)	(356,600)
Net change in non-cash balances related to operations	(388,605)	(399,604)
Lending activities:		
Loans issued	(984,864)	(2,605,752)
Loan principal payments	1,133,524	1,628,306
Purchase of office equipment	(1,434)	(16,839)
	(909,079)	(1,750,489)
Financing activities		
Subsidy - Province of Manitoba (note 1)	1,368,823	1,022,565
Advances by the Province of Manitoba (note 4)	500,000	895,000
	1,868,823	1,917,565
Increase in cash and trust deposits	959,744	167,076
Cash and trust deposits at beginning of year, Statement 1	665,806	498,730
Cash and trust deposits at end of year, Statement 1	$1,625,550	$ 665,806

The accompanying notes are an integral part of these financial statements.

Schedule 1

COMMUNITIES ECONOMIC DEVELOPMENT FUND

Schedule of Administrative Expenses (note 2 b)
for the year ended March 31, 1989
(with 1988 figures for comparison)

	1989	1988
Communications	$ 24,132	$ 28,455
Consultants' fees and expenses	49,132	12,601
Credit reports	22,184	25,299
Depreciation	10,632	10,135
Directors' fees and expenses	52,561	58,321
Investigation expenses	35,443	-
Legal and audit	86,148	18,172
Office supplies and expenses	29,687	46,744
Rent and utilities	118,105	114,210
Salaries and employee benefits	869,177	618,998
Sundry	16,030	10,505
Travel	42,366	73,150
Administrative expenses, Statement 2	1,355,597	$1,016,590

The accompanying notes are an integral part of these financial statements.

COMMUNITIES ECONOMIC DEVELOPMENT FUND

Notes to the Financial Statements
for the year ended March 31, 1989

1. Nature of the Fund

The Communities Economic Development Fund (The Fund) was established as a Crown corporation to encourage the optimum economic development of remote and isolated communities within the Province of Manitoba. The Fund places emphasis upon the economic development of northern Manitoba. However, applicants from other communities within the Province, with exception of the larger centres, are also considered. To carry out this objective it is not practical to pass on all of the Fund's costs to the users of its services. As a result, the Fund depends on a subsidy from the Province of Manitoba.

2. Significant Accounting Policies

(a) Allowance for doubtful accounts

The allowance for doubtful accounts on loans and interest receivable is based on a specific percentage provision for all accounts in arrears for more than ninety days and an additional provision where problem accounts have been identified. The additional provision is based on the amount of the loan outstanding less the estimated worth of the security held.

(b) Administrative expenses (Schedule 1)

The Fund is jointly administered with the Manitoba Development Corporation (MDC). At the year end, common administrative expenses are reviewed and allocated between MDC and the Fund on a proportionate basis as determined by officials of MDC and the Fund. Any significant difference between the administrative expenses paid by the Fund and the prorated administrative expenses is either recovered from or reimbursed to MDC.

COMMUNITIES ECONOMIC DEVELOPMENT FUND

Notes to the Financial Statements
for the year ended March 31, 1989

2. Significant Accounting Policies (continued)

(c) Pension expense and obligations

The employees of the Fund are not members of the Civil Service of the Province but they contribute to, and are pensionable under, the Civil Service Superannuation Fund. In accordance with the provisions of the Manitoba Civil Service Superannuation Act, the Communities Economic Development Fund will contribute 50% of the pension payments made to retired employees. The current pension expense is determined on the basis of an actuarial valuation. In addition, the past service obligations are being charged to operations over a ten year period. Payments to pensioners are charged against the liability account.

(d) Depreciation

Office furniture and equipment is depreciated at 10% on a straight line basis.

3. Changes in accounting policies

(a) Allowance for doubtful accounts

During the year, the Fund changed its method of accounting for the allowance for doubtful accounts. In prior fiscal years, the allowance was calculated by estimating the potential write-off for each loan. In 1989, similar to prior years, where individual problem accounts have been identified, an estimate of the potential write-off is established. In addition, in 1989 a provision is established for all loans in arrears for more than 90 days based on a specific percentage related to the length of the arrears period. This change has been applied prospectively and has resulted in an increase of $140,000 in the allowance for doubtful accounts.

COMMUNITIES ECONOMIC DEVELOPMENT FUND

Notes to the Financial Statements
for the year ended March 31, 1989

3. Changes in accounting policies (continued)

(b) Pension expense and obligations

During the year, the Fund changed its method of accounting for pension expenses and obligations. In fiscal years prior to 1989, the Fund charged to operations contributions to the Manitoba Civil Service Superannuation Fund which amounted to 50% of the pension payments made to retired employees. Beginning in the 1989 fiscal year, the Fund has recorded a provision to fund current service obligations and to fund past service obligations over a ten-year period. On the basis of an actuarial report, the unfunded liability amounted to $473,024 at December 31, 1988 ($526,501 at December 31, 1987). This change in accounting policy for pension expense and obligations has been applied prospectively and has resulted in an additional $153,000 being charged to operations.

4. Advances by the Province of Manitoba

Funds are advanced by the Province by way of interest-free conditional grants to a revolving fund for the purpose of making direct loans and loan guarantees. If the Communities Economic Development Fund should cease operations, then all remaining funds will be returned to the Province.

The funds advanced are as follows:

	1989	1988
Balance, beginning of year	$7,017,223	$6,122,223
Funds advanced during the year	500,000	895,000
Balance, end of year	$7,517,223	$7,017,223

The balance of available capital authority as at March 31, 1989 is $3,005,000 for direct loans and $1,400,000 for loan guarantees. Any funds drawn in excess of current needs are deposited with the Province interest free.

COMMUNITIES ECONOMIC DEVELOPMENT FUND

Notes to the Financial Statements
for the year ended March 31, 1989

5. Allowance for Doubtful Accounts

The change in the allowance is accounted for as follows:

	1989	1988
Balance, beginning of year	$ 1,138,600	$ 1,169,600
Provision during the year	690,490	655,830
	1,829,090	1,825,430
Less: accounts written off	186,390	686,830
Balance, end of year	$ 1,642,700	$ 1,138,600

6. Loan Commitments and Contingent Liabilities

	1989	1988
(a) Loan commitments - undisbursed balance of approved loans	$ 228,219	$ 847,947
(b) Contingent liability - bank loan guarantees	$ 40,000	$ 40,000

(c) Contingent liability - In 1980, a judgement was rendered against the Fund which resulted in certain real property being returned to the plaintiff. An assessment of damages is still to be decided upon by the courts.

7. Due from Province of Manitoba

The Province of Manitoba provided a grant to cover the Fund's anticipated subsidy requirements for the year ended March 31, 1989. The amount of $868,822 (1988 - $515,439), which is shown on the balance sheet (Statement 1), represents additional funds needed to cover the actual requirements for the year.

COMMUNITIES ECONOMIC DEVELOPMENT FUND

Notes to the Financial Statements
for the year ended March 31, 1989

8. Loan Interest Suspensions

As part of the normal loan account assessment, the Fund periodically suspends interest where accounts are considered uncollectible or where the suspension will assist in the collection process. At March 31, 1989 there were 6 loans (1988 - 7) with principal amounts outstanding of $168,020 (1988 - $399,567) where interest suspensions have been approved by the Board.

9. Comparative Figures

Certain comparative figures have been restated to conform with the presentation of the current year.